HOUSING MARKET OUTLOOK
Montréal CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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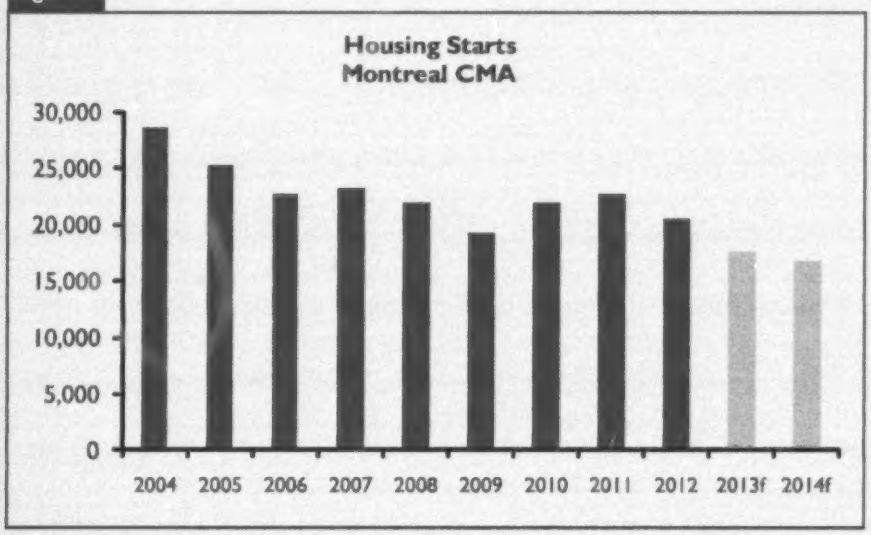
Montréal CMA Housing Market Outlook for 2013 and 2014[1]

Demand for new and existing homes will decrease in 2013, which will result in declines in housing starts and Centris® sales for a second straight year in the Montréal CMA.

The slowdown in activity on the housing market will be due to modest economic growth, marked by a relatively small gain in employment in the CMA.

On the resale market, 37,500 transactions will be registered in the Montréal CMA in 2013, down by 7 per cent year over year. This decrease in sales and increase in active listings will cause market conditions to

Figure 1



Source: CMHC

[1] The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts included in this document reflect information available as of April 26, 2013.

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ease. With buyers enjoying greater negotiating power, the pressure on prices will be weak. The average resale price will rise by 1.4 per cent in 2013, compared to 2012. On the new home market, 17,600 starts are expected this year, for a decrease of 15 per cent from last year. The significant supply of existing homes and the large number of units now under construction will again cause builders to slow their production, especially in the condominium segment.

In 2014, economic growth will be stronger, and demand on the resale market will rise gradually and get back up to levels comparable to those recorded in 2011 and 2012. In all, 40,200 Centris® transactions are expected, for an increase of 7 per cent over the result anticipated in 2013. The market will remain balanced, as active listings will rise once again. As a result, the growth in the average resale price will stay weak (+1.1 per cent). The still significant supply of existing dwellings and the rising number of new, completed and unoccupied units will bring about another decrease in starts. In all, 16,900 new units are expected in 2014, for a drop of 4 per cent from 2013.

Economic environment in 2013 and 2014

After growing by 1.0 per cent in 2012, the Quebec economy will post another modest gain in GDP in 2013 (+1.2 per cent). The global economic environment and strong Canadian dollar will continue to hinder exports. In 2014, stimulated by an improvement in the external sector, the province's economy will grow at a stronger pace.

This environment will result in relatively moderate gains for the Montréal CMA job market. After having risen by 1.4 per cent in 2012, employment will grow by 1.5 per cent in 2013 and 1.1 per cent in 2014. The unemployment rate will fall progressively this year and next year, reaching 8.3 per cent and 8.2 per cent, respectively. A positive factor for housing demand: even through employment posted moderate growth, full-time positions rose more significantly than part-time jobs in recent quarters. The financial services and health care sectors were the most active in terms of job creation. On the other hand, jobs losses were registered in the public administration sector, and growth was weak in the manufacturing sector.

Demographics

Net migration, an important factor for housing demand in the Montréal area, will remain relatively high in 2013 and 2014. From 32,642 people in 2012, the level will reach 32,500 people in 2013 and 32,750 in 2014. Even though Montréal CMA shows negative met migration with the other regions of Quebec and the other provinces across Canada, the area continues to receive a significant number of immigrants. In 2012, more than 45,000 immigrants settled in the CMA. With the government keeping the same immigration targets[2], the number of immigrants will remain similar. Immigration has a major impact on demand for housing, especially rental units.

Mortgage rates to see modest and gradual increases but will remain low

In line with the consensus among private sector forecasters, increases in the target for the overnight rate by the Bank of Canada are not expected before mid-2014, later than anticipated at the time of the first quarter 2013 edition of the national *Housing Market Outlook*. This reflects the downward revisions in GDP forecasts since the publication of that edition, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42 per cent, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Mortgage rates are not expected to increase until mid-2014. The anticipated small and steady increases in mortgage rates will lead to somewhat higher mortgage rates by the end of 2014. However, these rates will remain low, by historical standards, over the forecast horizon.

[2] Source: Ministère de l'Immigration et des Communautés culturelles (strategic plan for 2012-2016 and Quebec immigration plan for 2013

Resale market

On the resale market, the pace of transactions has been slowing down considerably since the summer of 2012. In the first quarter of 2013, Centris® sales fell again, recording a decrease of 18 per cent from the same period in 2012. This decline resulted from a modest economic environment and moderate employment growth. Activity on the resale market will gradually regain strength beginning this spring through the end of 2013, but sales will below the levels observed in recent years. Overall, 37,500 transactions will be registered in the CMA in 2013, down by 7 per cent from last year.

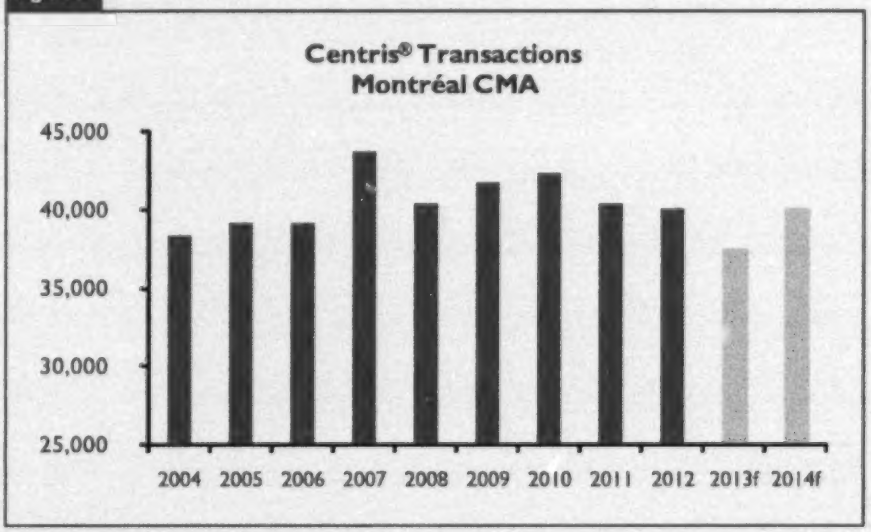
On the supply side, active listings will continue to rise significantly, reaching 30,700 units in 2013, for an increase of 13 per cent over 2012, and marking a rise for the third year in a row. The decrease in demand, combined with the considerable increase in supply, will cause the market to ease even further. Favourable to sellers twelve months ago, resale market conditions were balanced—almost giving the edge to buyers—in the first quarter of 2013. Overall, the market will continue to ease slightly from now until the end of 2013. After posting gains of no less than 4 per cent for at least 10 years, the average Centris® resale price in the Montréal CMA will rise by 1.4 per cent in 2013.

It should be noted that the strong increase in supply has been mainly attributable to condominiums. For the past year, about 80 per cent of the rise in active listings has come from the condominium segment. In 2013, active listings will once again be fuelled by a significant jump in condominiums for sale—a direct result of the large numbers of condominiums started in recent years. According to a special study conducted by CMHC, condominiums change hands more often than single-family houses[3]. Recently built units will therefore contribute to driving up the number of active listings. The growth in supply and the slowdown in demand caused the condominium market to soften quickly in the last few quarters. This market segment is now favourable to buyers and will ease slightly more in the coming quarters. Buyers will consequently have greater negotiating power in 2013.

The single-family home and plex market segments also eased recently, but they remain balanced. Active listings rose much more slowly for these housing types than for condominiums. These two segments will continue to ease somewhat during the remaining quarters of this year but will stay balanced. With buyers benefiting from a wide choice of properties on the market, the pressure on prices will be weak. The growth in the average prices will be stronger in the single-family home and plex segments than on the condominium market, where conditions already favour buyers.

In 2014, with the economy regaining strength and activity leading to the expansion of the housing stock on the rise, transactions will increase by 7 per cent year over year, reaching 40,200 units—a volume comparable to the levels recorded in 2011 and 2012. As market conditions will be more favourable to buyers, some owners will see less benefit in testing the market and putting their homes up for sale. As a result, the slower growth in new listings and the greater number of transactions will cause active listings to rise more slowly, such that they should reach 31,500 units, for an

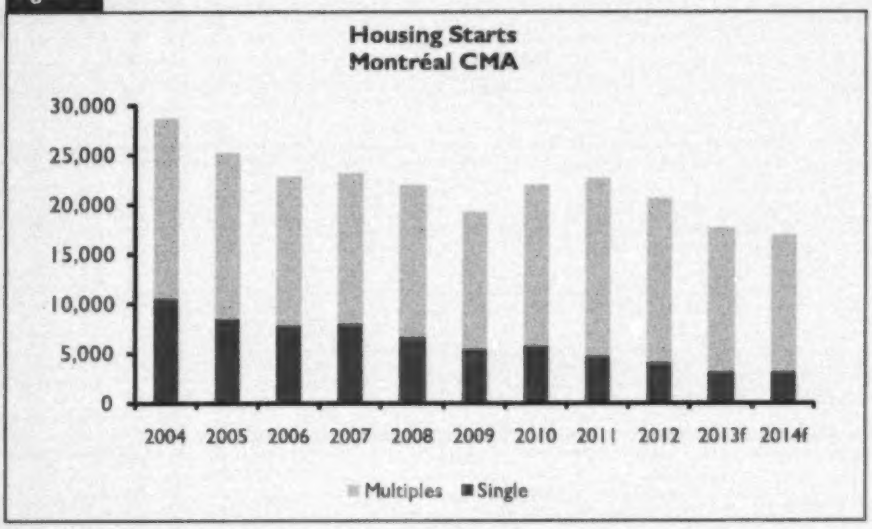
Figure 2



Source: QFREB by Centris®
Forecast: CMHC

[3] In fact, a special study conducted by CMHC last fall showed that, out of the condominiums sold in 2005, 50 per cent had since been sold again on the resale market, compared to 32 per cent for single-family houses.

Figure 3



Source: CMHC

increase of 3 per cent over 2013. In this context, market conditions will remain similar. Overall, the market will remain balanced. Consequently, the pressure on prices will again be weak (+1.1 per cent). The condominium segment will remain favourable to buyers, with a below-average increase in the average price.

New home market

Given the current economic environment, the softer resale market conditions and the large number of units now under construction throughout the CMA, housing starts will decrease again in 2013. In all, 17,600 units will be started in 2013, down by 15 per cent from 2012. The annual average for the last five years was over 21,000 units. The expected number of housing starts will be more in line with the demographic needs resulting from household formation.

In the single-detached home segment, foundations will be laid for 3,200 units in 2013, for a decrease of 19 per cent from 2012. This decline will be due in part to current economic conditions but will especially reflect the downward trend observed for the past ten years or so in this segment. In fact, for the past decade, such houses have been losing market shares to multiple-unit housing types, such as condominiums and semi-detached and row homes. Representing the majority of the dwellings started in the Montréal CMA the early 2000s, single-detached homes make up just under 20 per cent in 2013. Several factors accounted for the significant decrease in single-detached home building in recent years and will continue to have an impact on this activity in 2013 and 2014. On the supply side, rising land prices and the intensification objective set by municipalities favour the construction of multi-unit housing, mainly on the Island but also increasingly in the suburbs. On the demand side, multi-family housing types are more affordable, especially for first-time buyers. As well, they often better meet the needs of buyers in terms of floor area, as 33 per cent of households in the CMA and up to 40 per cent on the Island are composed of a single person. Single-detached houses are increasingly built in the more outlying sectors of the CMA, and even outside the CMA.

In the multi-unit housing segment, 14,400 starts are expected in 2013, down by 14 per cent from last year. A real driving force of residential construction in the Montréal CMA in recent years, condominium starts will fall for a second straight year. In this segment, 10,000 units will get under way this year, for a drop of 16 per cent from 2012. The slowdown in condominium construction has already begun. In the first quarter of 2013, starts of this type fell by 18 per cent from a year earlier. The decline in condominium starts is due to several factors. On the resale market, the marked rise in active condominium listings has now caused conditions to favour buyers. On the new home market, nearly 13,000 condominiums were under construction this spring—an all-time high. The significant supply will result in a greater number of unoccupied units over the coming quarters and prompt builders to slow down their pace of production in this category.

The decline will be less pronounced in the rental housing segment, where just over 2,000 units will get under way in 2013, for a volume comparable to the 2,345 units enumerated in 2012. However, these levels are fairly low in relation to those of the previous decade. Few units intended for the traditional rental market will be started this year, as builders will continue to favour condominium construction, which is more profitable. As for retirement home construction, few new units of this type are anticipated. The demographic growth of the target client group of this market is currently weak, reflecting the demographic trough of the 1930s. Also, the vacancy rate in this market segment is relatively high, at 8 per cent, which indicates that supply is

amply meeting current demand.

In 2014, foundations were laid for a total of 16,900 dwellings, for a drop of 4 per cent from 2013. Demand for new housing will be limited by continued soft conditions on the resale market and rising inventories (of unoccupied units).

Single-detached home starts will fall slightly next year, reaching 3,100 units, down by 3 per cent from 2013. With a balanced resale market and a shift in demand toward more affordable options, single-detached houses will once again account for less than 20 per cent of all housing starts in 2014.

Multi-unit housing starts will also register a smaller decrease in 2014 than this year, with a drop of 4 per cent, to 13,800 units. The slowdown in activity on the condominium market will continue. Just under 10,000 units of this type will be started. With the resale market favouring buyers and the number of new and unoccupied units on the rise, demand for new units will be limited. Longer absorption times for new projects and higher proportions of unoccupied units at completion will make builders cautious, such that they will again reduce their numbers of new projects in 2014. The condominium market will experience an adjustment period in 2013 and 2014 to absorb the surplus supply. Still, apart from the fact that condominiums are more affordable than single-detached houses, several factors will continue to favour the condominium market over the medium and long term. For example, municipalities will be seeking to further increase the density on their territories over the coming years. In addition, demographic factors, such as the significant number of one-person households, will also have an impact on the demand for condominiums over the next few years. This segment will therefore remain the key driver of residential construction in the coming years. In the rental housing segment, the starts level will be stable, reaching just over 2,000 units.

Figure 4

Source: CMHC
*Private structures with three or more apartments

Rental market

In 2013, the rental housing vacancy rate will decrease slightly, reaching 2.7 per cent this fall, compared to 2.8 per cent in the fall of 2012. On this market, the vacancy rate has been relatively stable since 2006, varying between 2.4 per cent and 2.9 per cent.

Rental housing demand will continue to be supported by a large number of newcomers to the Montréal CMA. The vast majority of the 45,000 immigrants who arrive in the area first turn to the rental market to find housing. While most immigrants settle on the Island, more and more of them are opting for the suburbs. In fact, their numbers have risen significantly in recent years in the closer suburban sectors, such as Laval and Longueuil[4].

Still on the demand side, a number of households can still be expected to access homeownership, especially with the large number of condominiums that will arrive on the market during the summer of 2013. However, this movement, which has been very intense in recent years, should slow down somewhat, especially in 2014. With immigration staying significant and the movement to homeownership declining, demand will be slightly higher. On the supply side, the rental housing has grown very little, given the limited number of rental housing units started in the last few years. With a somewhat stronger demand and a relatively stable supply, the vacancy rate will therefore fall slightly in 2013 and 2014.

[4] Source: Institut de la statistique du Québec, International and interprovincial migration, by census division, Quebec, 1996-2012

Forecast Summary Montréal CMA Spring 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	5,789	4,653	3,959	3,200	-19.2	3,100	-3.1
Multiples	16,212	18,066	16,632	14,400	-13.4	13,800	-4.2
Starts - Total	22,001	22,719	20,591	17,600	-14.5	16,900	-4.0
Average Price ($):							
Single-Detached	343,513	362,243	407,065	431,500	6.0	453,000	5.0
New Housing Price Index (% chg.)	3.1	2.9	1.4	1.0	-	1.2	-
Resale Market[1]							
Centris® Sales	42,298	40,357	40,094	37,500	-6.5	40,200	7.2
Centris® Active Listings	21,334	24,708	27,108	30,700	13.3	31,500	2.6
Centris® Average Price ($)	297,590	313,998	326,366	331,000	1.4	334,500	1.1
Rental Market[2]							
October Vacancy Rate (%)	2.7	2.5	2.8	2.7	-	2.5	-
Two-bedroom Average Rent (October) ($)	700	719	711	720	-	730	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.5	3.5	3.2	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.6	5.4	5.3	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	1,954,200	1,952,500	1,978,800	2,008,000	1.5	2,030,000	1.1
Employment Growth (%)	2.6	-0.1	1.3	0.9	-	1.1	-
Unemployment rate (%)	8.6	8.3	8.5	8.3	-	8.2	-
Net Migration	32,413	30,432	32,642	32,500	-0.4	32,750	0.8

The Centris® system contains all the listings of Québec real estate brokers.

[1] Source: Centris® Statistics

[2] Privately initiated rental apartment structures of three units and over

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics. CMHC Forecast (2013-2014)

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